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ST. MAURICE CAPITAL CORPORATION LIMITED

Annual Report 1971

DIRECTORS

T. L. Charne, Q.C.
President,
St. Maurice Properties Limited

Dr. J. M. Gillies
Dean,
Faculty of Administrative Studies,
York University

*D. C. Hannaford
President,
Mead & Co. Limited

R. B. Love, Q.C.
Partner,
Macleod Dixon

*P. E. Martin
Vice-President,
Power Corporation of Canada, Limited

D. A. Ross, C.A.
President,
Farmers & Merchants Trust Co. Ltd.

*W. Teron
President,
William Teron & Associates

J. A. Timmins
President,
Gates Learjet of Canada Ltd.

R. H. E. Walker, Q.C.
Partner,
Martineau, Walker, Allison,
Beaulieu, Phelan & MacKell

*J. B. Whitely
President,
St. Maurice Capital Corporation Limited

OFFICERS

W. Teron
Chairman of the Board

J. B. Whitely
President and Chief Executive Officer

T. L. Charne, Q.C.
Vice-President

E. D. Bateman, C.A.
Secretary-Treasurer

AUDITORS

Riddell, Stead & Co.

TRANSFER AGENT AND REGISTRAR

Canada Permanent Trust Company
Montreal and Toronto

STOCK LISTINGS

The Toronto Stock Exchange
Canadian Stock Exchange

HEAD OFFICE

One Place Ville Marie
Montreal 113, Canada

*Member of the Executive Committee

President's Report

St. Maurice Capital commenced business on January 1, 1971, as the successor company to St. Maurice Gas Inc. This report presents the audited consolidated financial statements for the first year of operations, together with comparative figures of St. Maurice Gas Inc. for 1970. The 1971 consolidated statements include the results of General Mortgage Corporation of Canada for the whole year and those of St. Maurice Properties Limited from July 1, the date this subsidiary started operations.

Net earnings from operations amounted to \$43,653 compared to an operating loss the previous year of \$45,869. We regard this as a satisfactory result in view of the fact that even by the year end we had invested only one quarter of our capital in operations, with the balance held principally in short term deposits and other investments in readiness to take advantage of further acquisition opportunities.

After taking into account the gain on the sale of securities, net earnings were \$250,590 compared to a loss of \$465,239 last year. It should be pointed out that following a basic policy change announced in 1970 we are no longer making portfolio or minority investments in the normal course of business. Gradual liquidation of our security holdings since that time has resulted in the recording of gains or losses which should not be regarded as part of our normal operating results. At year end we provided for possible losses on the disposal of the remaining securities, thereby reducing the gain on securities reflected in our six and nine months' interim reports to shareholders. For this reason, we expect that the gain or loss on securities will be a comparatively small item in the 1972 accounts.

Our first year was a very eventful one. In January we purchased all the shares of M.N.S. Investments Limited, a private investment holding company, in exchange for 3,382,320 shares of St. Maurice. The purpose of this acquisition was to increase our equity capital by approximately \$1,700,000 and to provide the funds required to finance our

ongoing corporate expansion programme. In addition to cash, the assets held by M.N.S. were largely marketable securities and the greater part of these were liquidated during the course of the year. Since M.N.S. did not have any continuing operational role to play, its assets were distributed to St. Maurice in December and it is now in the process of being wound up.

General Mortgage Corporation of Canada, our subsidiary engaged in the first mortgage loan business, made outstanding progress, with assets and earnings up substantially over 1970. The expansion in their operations was based on a financing programme worked out last year whereby bond issues are periodically sold to the public through an underwriting group of investment dealers. The outlook is for continuing growth in assets and earnings. During 1971 we increased our interest in this subsidiary from 52.7% to 83.9% of the shares outstanding.

Early in the year we decided to enter the field of real estate development because of the strong long term growth prospects for this sector of the economy. We reviewed the possibility of acquiring an existing company but decided that the premium asked would be too high in such cases and we would obtain a greater return on our investment by forming our own company. St. Maurice Properties Limited, in which we hold a 90% interest, commenced operations on July 1 with executive offices in Winnipeg. We were fortunate to obtain the services of Mr. T.L. Charne, Q.C. to head up this new subsidiary. As well as being appointed President of St. Maurice Properties Mr. Charne was appointed a director and Vice-President of the parent company. St. Maurice Properties will operate on a national scale, with special emphasis on the development of shopping centres. At present, a number of projects are being planned. It was too early for this subsidiary to make any contribution to the earnings of our group in 1971 nor do we anticipate a contribution for the coming year. This is due to the considerable time period which is required between the initial planning of major

real estate projects such as the ones we are engaged in and their completion. However, as developments are completed St. Maurice Properties is expected to demonstrate a strong growth pattern in earnings.

By mid-year we decided to move further into the area of financial services and came to the conclusion that a key step would be the acquisition of a trust company. Trust companies in Canada are empowered to offer a wide range of financial services in addition to performing their basic fiduciary functions. We spent considerable time searching for a suitable company and in February of this year announced our agreement to purchase control of Farmers & Merchants Trust Co. Ltd. On March 1 we completed the purchase of 405,000 common shares, representing a 50.1% interest, and 15,862 7% preference shares (par value \$10) of the trust company from certain major shareholders for an aggregate consideration of \$1,785,401, paid by cash and 300,000 common shares of St. Maurice. In addition we have agreed to underwrite a new issue of common shares of the trust company to be offered to all common shareholders through a rights issue on the basis of one new share at \$3 for each two shares held. We will exercise our own rights, thereby maintaining our 50.1% position. The acquisition is being financed out of working capital together with a six year term loan arranged with our bankers.

Farmers & Merchants Trust has its head office in Calgary, with branches in six cities in Alberta as well as Montreal, Vancouver and Nassau in the Bahamas. Its growth in recent years has been most impressive and the outlook is very promising. In addition to further expansion in their mortgage lending activity they plan to diversify into a greater range of financial services. They have an excellent management team led by Mr. D.A. Ross who has been President since 1965. Mr. Ross will continue in this capacity and also has been appointed to the Board of St. Maurice Capital.

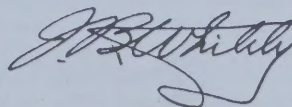
Results of the trust company are not included in the 1971 consolidated financial statements

presented in this report. They will be included only from the date of acquisition, March 1, 1972. We do, however, provide these 1971 results in the Review of Operations in order to give an indication of the magnitude of their effect on our overall position.

In addition to Mr. Charne and Mr. Ross who are mentioned above, we would like to welcome to the Board four new directors (not directors of the predecessor company). They are Dr. J.M. Gillies, R.B. Love, P.E. Martin and W. Teron who was elected Chairman. We also wish to express our appreciation to all individual members of the management and staff of our companies for their cooperation and support during the year.

In summary, 1971 was a year in which we defined our corporate objectives and took important steps toward their attainment. As a financial service and real estate development company, we intend to pursue a policy of continuing growth through internal expansion and further corporate acquisitions, all with a view to improving year by year the return on shareholders' equity. With respect to the coming year, we are confident that earnings from operations will show a marked improvement.

ON BEHALF OF THE BOARD



J.B. Whitely
President

Montreal, April 13, 1972

ST. MAURICE CAPITAL CORPORATION LIMITED

St. Maurice Capital provides certain management services to the subsidiary companies, particularly in the areas of financing and planning. Also we are continually searching out new opportunities for the St. Maurice group, either in the form of corporate acquisitions or through the development of new ideas and directions from within.

For example, we have researched the possibility of financial intermediaries similar to U.S. real estate investment trusts starting up in Canada and the advisability of our sponsoring and managing such an institution. At present, we feel there is a real opportunity here but are waiting for further information on the possibility of federal legislation dealing with this whole subject.

With respect to the acquisition of new companies we analyse and investigate many possibilities every year and are confident that from time to time new names will be added to the St. Maurice group.

GENERAL MORTGAGE CORPORATION OF CANADA

Three bond issues were underwritten during the year — one in March for \$1,000,000, one in June for \$1,500,000 and a third in November for \$1,500,000. The proceeds of these issues were used to reduce bank indebtedness and expand the conventional mortgage portfolio.

Operating income (before mortgage investment reserve changes and income tax), probably the most meaningful indicator of the company's progress, was up 31%. Net income after tax increased 17%. The reason for this discrepancy is that in 1970 funds were released from mortgage reserves into income whereas in 1971 no such release occurred.

The company strengthened its mortgage lending capability to keep pace with the stepped up volume of business. Although

mortgage rates declined by about 1% during the year, in response to an easing in the demand for loans and an increase in available funds, the company achieved a highly satisfactory result in its lending operation.

ST. MAURICE PROPERTIES LIMITED

St. Maurice Properties has reviewed various possible development opportunities since it commenced operations. The major project underway is a shopping centre-residential complex to be known as Glendale Village being undertaken jointly with Wm. Teron and Associates. The 141-acre site, home of the Glendale Golf & Country Club, is located in the western part of Winnipeg. It fronts on Portage Avenue, the main east-west artery of the city, and runs south to the Assiniboine River. A 450,000 sq. ft. regional shopping centre is planned on the front 40 acres with the remaining acreage to be used for residential units, including single-family homes, low-density multiple housing and high rise apartment buildings. The land was purchased last December for \$2,450,000, subject to the required rezoning being obtained and certain other conditions. Rezoning is now in progress and construction of the shopping centre is expected to begin in early 1973, with completion in 1974.

The company is also planning a 140,000 sq. ft. shopping centre on an eight acre site in the downtown area of Kenora, Ontario. Construction is expected to commence this summer with completion in 1973.

FARMERS & MERCHANTS TRUST CO. LTD.

Our new subsidiary, Farmers & Merchants Trust Co. Ltd., was incorporated in 1910 under the Alberta Trust Companies Act. Inactive until 1957, the trust company's main period of growth has been since mid-1960 when the present management took over. During the five-year period from 1967 to 1971 total assets increased from \$33.1 million to \$64.4 million, shareholders' equity from

\$1.7 million to \$3.1 million and income from \$167,000 to \$602,000. Several new branches were opened during this period.

1971 was an excellent year for F. & M. Income before extraordinary items amounted to \$522,727, an increase of 74% over the

previous year. Income after extraordinary items was \$601,649, up 101%.

The audited consolidated financial statements of Farmers & Merchants for 1971 (with comparative figures for 1970) are shown below.

**FARMERS AND MERCHANTS TRUST CO. LTD.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1971**

**Consolidated Balance Sheet
Capital and Guaranteed Trust Accounts**

| Assets | December 31 | |
|---|---------------------|---------------------|
| | 1971 | 1970 |
| Cash and bank deposit receipts | \$ 2,437,593 | \$ 3,627,943 |
| Investment in marketable securities, at cost (Note 2): | | |
| Government bonds | 12,197,426 | 7,842,842 |
| Municipal bonds | 1,096,665 | 1,427,892 |
| Corporate bonds | 7,939,393 | 6,056,915 |
| Stocks | 1,816,367 | 3,418,903 |
| | 23,049,851 | 18,746,552 |
| Mortgages, agreements and secured loans | 36,960,657 | 34,867,937 |
| Accounts receivable and prepaid expenses | 221,153 | 116,334 |
| Properties held for sale | 461,333 | 933,420 |
| Rental properties (Note 3) | 1,049,362 | — |
| Land, buildings and leasehold improvements, at cost less accumulated depreciation of — 1971 — \$175,401; 1970 — \$132,480 | 347,587 | 381,827 |
| | <u>\$64,527,536</u> | <u>\$58,674,013</u> |

| Liabilities | December 31 | |
|--|---------------------|---------------------|
| | 1971 | 1970 |
| Guaranteed trust accounts: | | |
| Savings deposits | \$10,377,527 | \$ 7,512,355 |
| Guaranteed savings certificates | 48,407,456 | 45,127,523 |
| | 58,784,983 | 52,639,878 |
| Accounts payable and accrued liabilities: | | |
| Brokers | 304,289 | 1,003,441 |
| Trade and others | 151,380 | 336,452 |
| Income taxes payable | 179,502 | 26,860 |
| Mortgages payable | 169,511 | 29,045 |
| Subordinated convertible note payable — 7½% (Note 4) | — | 203,748 |
| Deferred income | 1,717,261 | 1,766,154 |
| Mortgage reserve | 150,000 | 150,000 |
| Shareholders' ownership: | | |
| Capital stock - | | |
| Authorized - | | |
| 100,000 7% cumulative preference shares of a par value of \$10 each | | |
| 1,000,000 common shares of a par value of \$1 each | | |
| Issued - | | |
| 25,000 preference shares | 250,000 | 250,000 |
| 804,763 common shares | 804,763 | 804,763 |
| Reserve fund | 1,000,000 | 800,000 |
| Surplus | 1,015,847 | 663,672 |
| | <u>3,070,610</u> | <u>2,518,435</u> |
| | <u>\$64,527,536</u> | <u>\$58,674,013</u> |

APPROVED ON BEHALF OF THE BOARD:

D.A. ROSS Director L.W. Der BACH Director

FARMERS & MERCHANTS TRUST CO. LTD.

Consolidated Statement of Income and Surplus

| | Year ended December 31 1971 | Fourteen months ended December 31 1970 |
|---|-----------------------------------|---|
| Profit before the following | \$4,866,561 | \$4,560,343 |
| Interest on deposits | 4,036,759 | 4,174,239 |
| Income before income taxes and extraordinary item | 829,802 | 386,104 |
| Income taxes | 307,075 | 85,953 |
| Income before extraordinary item | 522,727 | 300,151 |
| Extraordinary item: Recovery of income taxes (Note 5) | 78,922 | — |
| Income for the period | 601,649 | 300,151 |
| Surplus at beginning of period | 663,672 | 531,021 |
| | 1,265,321 | 831,172 |
| Less: | | |
| Transferred to reserve fund | 200,000 | 150,000 |
| Dividends on preference shares | 17,500 | 17,500 |
| Excess cost of shares of subsidiary over net book value of assets (Note 4) | 31,974 | — |
| Surplus at end of period | <u>\$1,015,847</u> | <u>\$ 663,672</u> |

Consolidated Statement of Reserve Fund

| | Year ended December 31 1971 | Fourteen months ended December 31 1970 |
|--------------------------------------|-----------------------------------|---|
| Balance at beginning of period | \$ 800,000 | \$650,000 |
| Transfer from surplus | 200,000 | 150,000 |
| Balance at end of period | <u>\$1,000,000</u> | <u>\$800,000</u> |

Auditors' Report

To the Shareholders of
Farmers & Merchants Trust Co. Ltd.

We have examined the consolidated balance sheet of Farmers & Merchants Trust Co. Ltd. and subsidiary companies as at December 31, 1971 and the consolidated statements of income and surplus and reserve fund for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances, including verification of cash, bank balances and securities of the companies. All our requirements as auditors have been complied with.

After due consideration we have formed an independent opinion of the position of the companies as at December 31, 1971 and, subject to the realization of the cost values of the investments in marketable securities

Notes to Consolidated Financial Statements December 31, 1971

1. The subsidiary companies, Trans-Canada Savings and Trust Corporation, Town & Country Apts. Ltd., Farmers & Merchants Trust Company (Nassau Office) Limited, Greenwood Properties (1970) Ltd., Famco Holdings Ltd. and D & B Noteholders Properties Ltd. are wholly-owned.

2. No provision has been made for the decline in the market value of marketable securities below cost because, in the opinion of management, such decline does not represent a permanent diminution in value.

Statutory values are determined in accordance with 1970 amendments to regulations authorized by the Alberta Trust Companies Act 1967.

The statutory and market values are:

| | 1971 | | 1970 | |
|-----------------------|---------------------|---------------------|---------------------|---------------------|
| | Statutory value | Market value | Statutory value | Market value |
| Govt. bonds | \$12,197,426 | \$12,076,549 | \$ 7,849,740 | \$ 7,247,846 |
| Municipal bonds | 1,096,665 | 1,034,884 | 1,427,892 | 1,280,591 |
| Corporate bonds | 7,862,046 | 7,932,018 | 6,006,503 | 5,699,843 |
| Stocks | 1,512,715 | 1,512,715 | 2,677,767 | 2,677,767 |
| | <u>\$22,668,852</u> | <u>\$22,556,166</u> | <u>\$17,961,902</u> | <u>\$16,906,047</u> |

3. The rental properties were acquired December 30, 1971 and therefore depreciation has not been provided.

4. During the year the Company paid the balance outstanding on the 7½% subordinated convertible note which was part of the consideration for the purchase of all the outstanding shares of Trans-Canada Savings and Trust Corporation. The note and cost of shares were reduced in accordance with the terms of the agreement. The final settlement of the note resulted in the shares having a cost of \$31,974 in excess of the net book value of assets of Trans-Canada. This excess has been written off to surplus.

5. For income tax purposes the Company has included in taxable income certain amounts carried as deferred income for accounting purposes. As these amounts are transferred from deferred income to current income, no further income taxes are payable on them. As a result of this procedure income taxes otherwise payable were reduced by \$78,922 in 1971. A balance of \$672,061, which has been included in taxable income, remains in deferred income at December 31, 1971.

referred to in Note 2, we report that in our opinion and according to the best of our information and the explanations given to us the accompanying consolidated balance sheet and consolidated statements of income and surplus and reserve fund present fairly the financial position of the companies as at December 31, 1971 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

We report that the financial statements are in agreement with the books of the companies and that all transactions of the Company that have come within our notice have in our opinion been within the powers of the Company.

Price Waterhouse & Co.
Chartered Accountants

Calgary, Alberta
February 18, 1972

ST. MAURICE CAPITAL CORPORATION LIMITED

(Incorporated under the Canada Corporations Act)

Consolidated Financial Statements
December 31, 1971

St. Maurice Capital Corporation Limited

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS FOR THE YEAR ENDED DECEMBER 31, 1971

| | 1971 | 1970 (Note 3) |
|--|------------------|---------------------|
| INCOME | | |
| Dividends..... | \$ 37,561 | \$ 16,842 |
| Interest..... | 681,816 | 243,329 |
| Other income..... | 56,438 | 8,394 |
| | <u>775,815</u> | <u>268,565</u> |
| EXPENSES | | |
| Bond interest and amortization of financing expenses | 259,854 | 42,872 |
| Bank interest | 176,006 | 120,201 |
| Management fees | — | 31,053 |
| Other administrative and general expenses including depreciation of \$2,957 (1970, \$498) | <u>246,855</u> | <u>103,468</u> |
| | <u>682,715</u> | <u>297,594</u> |
| | 93,100 | (29,029) |
| Release of portion of mortgage investment reserve..... | <u>—</u> | <u>30,000</u> |
| EARNINGS FROM OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST | <u>93,100</u> | <u>971</u> |
| INCOME TAXES | | |
| Current | 18,300 | 18,170 |
| Deferred..... | 10,700 | 10,160 |
| | <u>29,000</u> | <u>28,330</u> |
| | 64,100 | (27,359) |
| MINORITY INTEREST | <u>20,447</u> | <u>18,510</u> |
| EARNINGS (LOSS) FROM OPERATIONS..... | <u>43,653</u> | <u>(45,869)</u> |
| GAIN (LOSS) ON SECURITIES..... | <u>206,937</u> | <u>(419,370)</u> |
| NET EARNINGS (LOSS)..... | <u>\$250,590</u> | <u>\$ (465,239)</u> |
| Retained earnings at beginning of year..... | <u>—</u> | <u>568,437</u> |
| RETAINED EARNINGS AT END OF YEAR | <u>\$250,590</u> | <u>\$ 103,198</u> |
| EARNINGS (LOSS) PER COMMON SHARE | | |
| Before gain (loss) on securities | \$.01 | \$ (.02) |
| Net earnings (loss) | \$.05 | \$ (.23) |

**CONSOLIDATED BALANCE SHEET AS AT
DECEMBER 31, 1971.**

ASSETS

| | <u>1971</u> | <u>1970</u> (Note 3) |
|---|---------------------|-------------------------|
| Cash | \$ 107,377 | \$ 194,434 |
| Deposit receipts | 2,389,000 | 150,000 |
| Marketable securities (Note 4) | 931,104 | 474,816 |
| Other securities, at cost less provision for loss | 363,557 | — |
| Mortgages receivable | 6,422,372 | 5,372,015 |
| Office equipment and leasehold improvements, at cost less accumulated depreciation of \$14,390 (1970, \$10,676)..... | 43,497 | 7,182 |
| Unamortized financing expenses | 100,714 | 4,402 |
| Deposits on real estate (Note 5)..... | 28,217 | — |
| Deferred development costs | 34,980 | — |
| Income taxes recoverable | 12,052 | — |
| Prepaid expenses and other assets..... | 24,978 | 9,772 |
| | <u>\$10,457,848</u> | <u>\$6,212,621</u> |

LIABILITIES

| | | |
|---|------------------|------------------|
| Bank indebtedness, secured by Series A and B bonds..... | \$ 1,785,500 | \$3,091,500 |
| Accounts payable and accrued liabilities | 122,333 | 78,117 |
| Series B bonds (Note 6)..... | 5,490,250 | 1,476,350 |
| Deferred income taxes | 33,455 | 22,755 |
| Minority interest..... | 272,951 | 732,301 |
| | <u>7,704,489</u> | <u>5,401,023</u> |

SHAREHOLDERS' EQUITY

| | | |
|---|---------------------|--------------------|
| Capital stock (Note 7) | | |
| Authorized | | |
| 10,000,000 common shares without nominal or par value | | |
| Issued | | |
| 5,397,480 shares | 2,502,769 | 708,400 |
| Retained earnings | 250,590 | 103,198 |
| | <u>2,753,359</u> | <u>811,598</u> |
| | <u>\$10,457,848</u> | <u>\$6,212,621</u> |

SIGNED ON BEHALF OF THE BOARD:

J.B. WHITELY, Director — W. TERON, Director

St. Maurice Capital Corporation Limited

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED DECEMBER 31, 1971

| | 1971 | 1970 (Note 3) |
|---|--------------------|-------------------|
| SOURCE OF FUNDS | | |
| Net earnings (loss) from operations..... | \$ 43,653 | \$ (45,869) |
| Items not involving funds — net..... | (6,071) | (14,332) |
| | 37,582 | (60,201) |
| Proceeds from sale of securities, less purchases | 471,004 | 453,802 |
| Issue of 5,397,480 common shares..... | 2,502,769 | — |
| Issue of Series B bonds, less financing expenses and redemptions | 3,905,248 | 39,600 |
| | <u>\$6,916,603</u> | <u>\$433,201</u> |
| APPLICATION OF FUNDS | | |
| Acquisition of net assets of St. Maurice Gas Inc..... | 811,598 | — |
| Acquisition of M.N.S. Investments Limited..... | 1,704,623 | — |
| Acquisition of shares of General Mortgage Corporation of Canada | 244,087 | 453,606 |
| Reduction of bank indebtedness | 1,306,000 | 117,500 |
| Net increase (decrease) in mortgages | 1,243,929 | (29,253) |
| Increase in cash and deposit receipts | 1,530,629 | 4,141 |
| Purchase of office equipment and leasehold improvements | 39,272 | 4,834 |
| Net change in other assets and liabilities..... | 36,465 | (117,627) |
| | <u>\$6,916,603</u> | <u>\$ 433,201</u> |

AUDITORS' REPORT

To the Shareholders
St. Maurice Capital Corporation Limited

We have examined the consolidated balance sheet of St. Maurice Capital Corporation Limited as at December 31, 1971 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination of the financial statements of St. Maurice Capital Corporation Limited and one subsidiary of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditor who has examined the financial statements of one other subsidiary.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which have been applied on a basis consistent with that of its predecessor company, St. Maurice Gas Inc., in the preceding year.

Montreal, Canada March 1, 1972

RIDDELL, STEAD & CO.
Chartered Accountants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1971

1. DATE OF INCORPORATION

The Company was incorporated on November 20, 1970 and commenced operations on January 1, 1971.

2. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies and the results of operations of those acquired during the year from their respective dates of acquisition.

3. 1970 COMPARATIVE FIGURES

St. Maurice Capital Corporation Limited continued to carry on the business of its predecessor company, St. Maurice Gas Inc., when it commenced operations on January 1, 1971. Accordingly, the consolidated financial statements of St. Maurice Gas Inc. have been presented as comparative figures for 1970.

Certain 1970 figures have been restated to conform with the presentation adopted in 1971.

4. MARKETABLE SECURITIES

| | 1971 | 1970 |
|--|-----------|------------|
| Preferred stocks, at cost | | |
| (quoted market value \$646,000; 1970, \$262,000)..... | \$698,658 | \$318,656 |
| Common stocks, at cost | 646,000 | |
| less provision for loss | 52,658 | |
| (quoted market value \$206,000; 1970 \$156,000) | \$232,446 | \$156,160* |

The preferred stocks are owned by a subsidiary company. No provision for decline in the value of the investment in preferred stocks has been made. The company considers that this decline is temporary and that no provision is necessary as it is not the company's intention to currently dispose of these securities.

The common stocks are owned by the parent company. It is the intention of the company to dispose of these securities in order to provide additional funds for expansion purposes.

Accordingly, provision has been made in these statements for the estimated loss on this group of securities.

* At December 31, 1970 the common stocks were owned by St. Maurice Gas Inc. and were written down at that time to quoted market value in anticipation of the sale of the assets of St. Maurice Gas Inc. to St. Maurice Capital Corporation Limited.

5. DEPOSITS ON REAL ESTATE

A subsidiary company, St. Maurice Properties Limited, has a 50% interest in a joint venture which has made an offer to purchase, for the sum of \$2,450,000, a certain property for development. The offer was accepted on December 9, 1971. The caption "Deposits on Real Estate" includes \$25,000, being the subsidiary's half of the joint venture's deposit on such property.

Upon the fulfillment of certain terms and conditions contained in the offer to purchase, within specified time limits, the purchasers are obligated to take title to the property and pay the balance of the purchase price over two years on specified dates. If these terms and conditions are not met within the time limits, the purchasers have the right to terminate the agreement and obtain a refund of one half of the said deposit.

6. SERIES B BONDS

These bonds have been issued by a subsidiary company, General Mortgage Corporation of Canada, and mature as follows:

| | 1971 | 1970 |
|------------|--------------------|--------------------|
| 1971 | \$ — | \$ 60,100 |
| 1972 | 256,000 | 256,000 |
| 1973 | 1,053,500 | 1,057,500 |
| 1974 | 61,000 | 23,500 |
| 1975 | 79,250 | 79,250 |
| 1976 | 4,040,500 | — |
| | <u>\$5,490,250</u> | <u>\$1,476,350</u> |

St. Maurice Capital Corporation Limited

7. CAPITAL STOCK

The issued capital stock of the Company at December 31, 1971 is as follows:

| | |
|------------------|--|
| 10 | shares (Incorporators' shares) outstanding at beginning of year |
| 2,015,150 | shares issued during the year for the net assets of St. Maurice Gas Inc. |
| 3,382,320 | shares issued during the year for all the outstanding shares of M.N.S. Investments Limited |
| <u>5,397,480</u> | shares |

The capital stock of St. Maurice Gas Inc. at December 31, 1970 was as follows:

Authorized

| | |
|-----------|---|
| 3,000,000 | common shares of a par value of \$1 each |
|-----------|---|

Issued

| | | | |
|------------------|---------------------------------------|----------------|------------------|
| 1,250,000 | shares for acquisition of investments | \$1,250,000 | |
| | Less: discount allowed..... | <u>922,500</u> | \$327,500 |
| 765,150 | shares for cash | 765,150 | |
| | Less: discount allowed..... | <u>384,250</u> | <u>380,900</u> |
| <u>2,015,150</u> | shares | | <u>\$708,400</u> |

Options have been granted to senior officers of the Company for the purchase of a total of 175,000 common shares. The options are exercisable on a cumulative basis over periods of five years and range in price from \$.49 per share to \$.67 per share. No part of these options has been exercised to date.

8. STATUTORY INFORMATION

Remuneration of Directors and Officers

| | <u>1971</u> | <u>1970</u> |
|---|-------------|-------------|
| Number of directors | 9 | 7 |
| Directors' remuneration | — | \$ 2,100 |
| Number of officers | 3 | 3 |
| Officers' remuneration | | |
| Paid by parent company | \$48,430 | \$24,270 |
| Paid by a subsidiary | \$18,740 | — |
| Number of directors who are also officers | 2 | 3 |

9. SUBSEQUENT EVENT

On March 1, 1972 the Company acquired 405,000 common shares, a 50.1% interest, and 15,862 7% preference shares with a par value of \$10 each of Farmers & Merchants Trust Co. Ltd. for a total consideration of \$1,785,401, paid by cash and the issuance of 300,000 common shares of St. Maurice Capital Corporation Limited. In addition, St. Maurice Capital has agreed to underwrite a new issue of common shares of the Trust Company to be offered to all common shareholders of the Trust Company through a rights issue on the basis of one new share at \$3 for each two shares held. St. Maurice Capital will exercise its own rights to take up 202,500 additional common shares.

The commitments outlined above are being financed out of the Company's working capital and a six year term loan arranged with the Company's bankers.

The St. Maurice Group

Subsidiary Companies

FARMERS & MERCHANTS TRUST CO. LTD.

Head Office — 209 8th Ave. S.W., Calgary, Alberta

| | |
|-----------------|-----------------------|
| J.B. Whitely | Chairman of the Board |
| D.A. Ross, C.A. | President |
| L.W. DerBach | Secretary-Treasurer |

GENERAL MORTGAGE CORPORATION OF CANADA

Head Office — 8 King Street E., Toronto, Ontario

| | |
|---------------|----------------------------|
| J.B. Whitely | President |
| L. Henderson | Vice-President & Secretary |
| L. Stimpson | Vice-President |
| M. Gaasenbeek | Treasurer |

ST. MAURICE PROPERTIES LIMITED

Executive Office — 3 Lombard Place, Winnipeg, Manitoba

| | |
|--------------------|-----------------------|
| J.B. Whitely | Chairman of the Board |
| T.L. Charne, Q.C. | President |
| E.D. Bateman, C.A. | Secretary-Treasurer |

